
ELWOOD TOWN

Audited Financial Statements

June 30, 2005

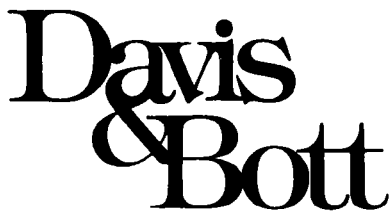
**Davis
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**Elwood Town
June 30, 2005**

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elwood, Utah, as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Elwood, Utah. Our responsibility is to express opinions on these financial statements based on our audit.

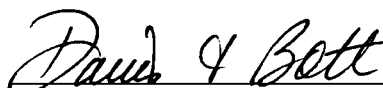
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elwood, Utah, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditors' Report
Elwood Town

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2005, on our consideration of Elwood, Utah's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10, and on pages 31 through 33, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



DAVIS & BOTT

Certified Public Accountants, L.C.

November 7, 2005

Elwood Town
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2005

As management of Elwood Town, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- A. The assets of the Town exceeded its liabilities at June 30, 2005, by \$1,410,931. Of this amount, unrestricted net assets of \$332,170 may be used to meet the Town's ongoing obligations to citizens and creditors.
- B. The total net assets increased by \$280,085 over the prior year. Of this amount \$175,096 was associated with governmental and \$104,989 with business-type activities.
- C. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$288,745, an increase of \$62,723 in comparison with the prior year. Of this amount, \$201,621 is unreserved and available for spending. The remaining \$87,124 has been reserved due to legal restrictions involving parties outside the financial reporting entity.
- D. At the end of the current fiscal year, unreserved fund balance for the general fund was \$86,244, or 54 percent of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town principally supported by taxes and intergovernmental revenues (governmental activities) from other functions intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, highways and streets, parks and redevelopment. The business-type activities of the Town consist of culinary water.

The government-wide financial statements include not only the Town itself (known as the primary government) but also a legally separate redevelopment agency which is a component unit of the Town. Financial information for this component unit is reported entirely within the primary government report.

Fund Financial Statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Town maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, cemetery fund, redevelopment agency fund, impact fee fund and capital projects fund. All are considered major funds.

The Town adopts a one-year budget for its governmental funds. Budgetary comparison statements have been provided.

Proprietary Funds. The Town maintains only one type of proprietary fund; namely, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets for the water utility fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Elwood Town
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2005, the Town's assets exceeded liabilities by \$1,410,931. By far, the largest portion of the Town's net assets (68.7 percent) reflects its investment in capital assets. Capital assets are used to provide services to citizens and they are not available for future spending.

Elwood Town's Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 334,589	\$ 304,982	\$ 160,406	\$ 50,836	\$ 494,995	\$ 355,818
Capital assets	<u>273,468</u>	<u>159,789</u>	<u>695,190</u>	<u>696,795</u>	<u>968,658</u>	<u>856,584</u>
Total assets	608,057	464,771	855,596	747,631	1,463,653	1,212,402
Long-term liabilities outstanding	21,733	25,710	-	-	21,733	25,710
Other liabilities	<u>18,494</u>	<u>26,393</u>	<u>12,495</u>	<u>9,519</u>	<u>30,989</u>	<u>35,912</u>
Total liabilities	40,227	52,103	12,495	9,519	52,722	61,622
Net assets:						
Investment in capital assets, net of related debt	273,468	159,789	695,190	671,085	968,658	830,874
Restricted	87,124	103,267	22,979	5,213	110,103	108,480
Unrestricted	<u>207,238</u>	<u>149,312</u>	<u>124,932</u>	<u>61,814</u>	<u>332,170</u>	<u>211,126</u>
Total net assets	\$ <u>567,830</u>	\$ <u>412,368</u>	\$ <u>843,101</u>	\$ <u>738,112</u>	\$ <u>1,410,931</u>	\$ <u>1,150,480</u>

The restricted portion of the net assets \$110,103 (7.8 percent) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net assets \$332,170 (23.5 percent) may be used to meet the Town's ongoing obligations to citizens and creditors.

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

At the end of the current fiscal year the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its combined governmental and business-type activities.

Elwood Town's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 31,229	\$ 28,876	\$ 78,659	\$ 54,368	\$ 109,888	\$ 83,244
Operating grants and contributions	101,578	110,395	64,562	53,171	166,140	163,566
Capital grants and contributions	62,500	-	31,200	-	93,700	-
General revenues:						
Property taxes	31,108	23,858	-	-	31,108	23,858
Other taxes	53,756	56,776	-	-	53,756	56,776
Other	6,282	2,564	4,819	389	11,101	2,953
Total revenues	<u>286,453</u>	<u>222,469</u>	<u>179,240</u>	<u>107,928</u>	<u>465,693</u>	<u>330,397</u>
Expenses:						
General government	53,931	72,557	-	-	53,931	72,557
Public safety	3,214	13,167	-	-	3,214	13,167
Streets and public works	34,205	37,410	-	-	34,205	37,410
Parks	20,007	25,678	-	-	20,007	25,678
Water utility	-	-	74,251	71,592	74,251	71,592
Total expenses	<u>111,357</u>	<u>148,812</u>	<u>74,251</u>	<u>71,592</u>	<u>185,608</u>	<u>220,404</u>
Increase (decrease) in net assets	175,096	73,657	104,989	36,336	280,085	109,993
Net assets July 1, 2004	412,668	339,011	738,112	701,776	1,150,780	1,040,787
Prior period adjustment	(19,934)	-	-	-	(19,934)	-
Net assets June 30, 2005	<u>\$ 567,830</u>	<u>\$ 412,668</u>	<u>\$ 843,101</u>	<u>\$ 738,112</u>	<u>\$ 1,410,931</u>	<u>\$ 1,150,780</u>

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

Governmental and Business-Type Activities. Governmental activities increased the Town's net assets by \$175,096. When combined with the \$104,989 increase in net assets from business-type activities, overall net assets increased by \$280,085 or 24.8 percent.

The increase in governmental net assets is mainly due to capitalizing the new road constructed. The increase in the business-type activities is due mainly to the construction of new water lines.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Government Funds. The purpose of the Town's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the Town's chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$86,244, which comprises the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved (and total) general fund balance represents 54.2 percent of total general fund expenditures. The fund balance of the Town's general fund increased by \$1,779 during the current fiscal year.

The cemetery fund balances remained mainly unchanged from prior years. The Redevelopment Agency fund balance increased by \$9,977, bringing its fund balance to (\$35,733). This fund is getting started, and the deficit should be repaid as property tax revenues continue to be received. The impact fees fund increased by \$32,767, as the Town has just begun to spend this money. This balance will likely be reduced in the future.

The capital projects fund increased mainly because of the transfer from the general fund to accumulate funds for future projects. The water utility fund's net assets increased by \$104,989. This was due mainly to impact fees being recognized as revenues currently while the new water lines are being capitalized and depreciated.

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenue budgets were increased mainly due to higher than expected taxes and receipt of Class "C" road money. The park budget was decreased due to the new bowery not being constructed by June 30, 2005. The streets and public works budget was increased due to funding of the sewer study from the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town's investment in capital assets for its governmental and business-type activities at June 30, 2005, amounted to \$968,658 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, service lines, equipment, roads and similar infrastructure. The total increase in the Town's investment in capital assets for the current fiscal year was \$137,784 (an increase of 71.1 percent for governmental activities and an increase of 3.6 percent for business-type activities).

Elwood Town's Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 22,500	\$ 5,000	\$ -	\$ -	\$ 22,500	\$ 5,000
Buildings	60,645	63,063	-	-	60,645	63,063
Improvements other than buildings	175,001	73,877	608,667	573,139	783,668	647,016
Equipment	<u>15,322</u>	<u>17,849</u>	<u>86,523</u>	<u>97,946</u>	<u>101,845</u>	<u>115,795</u>
Net capital assets	\$ <u>273,468</u>	\$ <u>159,789</u>	\$ <u>695,190</u>	\$ <u>671,085</u>	\$ <u>968,658</u>	\$ <u>830,874</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS AND RATES

Elwood Town hired an organization to determine how to maintain and improve the roads throughout the town. The roads have been rated to determine which roads to begin with for improvements and maintenance. The Town plans to improve the conditions of all roads as suggested and as money will allow.

Elwood Town
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

The water system improvements for the Town will be the focal point to complete the proposed projects as soon as possible, securing the drinking water throughout the Town.

A building at the park is planned to house food preparation and plans are being made to start improvements on land designated for a park. Impact fees will be utilized for these projects first.

Another project that has been given top priority is the development of a storm water system.

Elwood Town
Statement of Net Assets
June 30, 2005

	Primary Government		
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$316,636	\$ 114,573	\$ 431,209
Accounts receivable - net	-	14,100	14,100
Due from other governmental units	46,686	-	46,686
Prepaid expenses	3,000	-	3,000
Internal balances	(31,733)	31,733	-
capital assets (net of accumulated depreciation)			
Land	22,500	-	22,500
Buildings	60,645	-	60,645
Improvements	175,001	608,667	783,668
Equipment	<u>15,322</u>	<u>86,523</u>	<u>101,845</u>
Total assets	<u>608,057</u>	<u>855,596</u>	<u>1,463,653</u>
LIABILITIES			
Accounts payable and accrued liabilities	17,171	890	18,061
Deferred revenue	<u>23,056</u>	<u>11,605</u>	<u>34,661</u>
Total liabilities	<u>40,227</u>	<u>12,495</u>	<u>52,722</u>
NET ASSETS			
Invested in capital assets, net of related debt	273,468	695,190	968,658
Restricted - impact fees	87,124	22,979	110,103
Unrestricted	<u>207,238</u>	<u>124,932</u>	<u>332,170</u>
Total net assets	<u>\$567,830</u>	<u>\$ 843,101</u>	<u>\$1,410,931</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Activities
For the Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental						
activities:						
General government	\$ 53,931	\$ 2,448	\$ -	\$ -	\$ (51,483)	\$ (51,483)
Public safety	3,214	26,242	466	-	23,494	23,494
Streets and public works	34,205	-	96,191	62,500	124,486	124,486
Parks and recreation	20,007	2,539	4,921	-	(12,547)	(12,547)
	<u>111,357</u>	<u>31,229</u>	<u>101,578</u>	<u>62,500</u>	<u>83,950</u>	<u>83,950</u>
Business-type						
activities:						
Water utility	74,251	78,659	64,562	31,200	-	100,170
						<u>100,170</u>
Total primary government activities	\$ 185,608	\$ 109,888	\$ 166,140	\$ 93,700	83,950	184,120
General revenues:						
Taxes:						
Property taxes					31,108	31,108
General sales and use taxes					53,756	53,756
Unrestricted investment earnings					6,282	4,819
						<u>11,101</u>
Total general revenues					91,146	4,819
Change in net assets					175,096	104,989
						<u>280,085</u>
Net assets - beginning					412,668	738,112
Prior period adjustment					(19,934)	-
						<u>1,150,780</u>
Net assets - ending					\$ 567,830	\$ 843,101
						<u>\$ 1,410,931</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Balance Sheet - Governmental Funds
June 30, 2005

	General Fund	Redevel. Agency Fund	Impact Fees Fund	Capital Projects Fund	Other Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 78,402	\$ -	\$ 87,124	\$ 112,417	\$ 38,693	\$ 316,636
Intergovernmental receivables (net)						
Property tax	10,432	14,000	-	-	-	24,432
Sales tax	10,421	-	-	-	-	10,421
Class "C" road money	11,833	-	-	-	-	11,833
Prepaid expense	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Total assets	<u>\$ 114,088</u>	<u>\$ 14,000</u>	<u>\$ 87,124</u>	<u>\$ 112,417</u>	<u>\$ 38,693</u>	<u>\$ 366,322</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 13,171	\$ 4,000	\$ -	\$ -	\$ -	\$ 17,171
Interfund payable	-	10,000	-	-	-	10,000
Deferred revenue	14,673	14,000	-	-	-	28,673
Advance from other fund	<u>-</u>	<u>21,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,733</u>
Total liabilities	<u>27,844</u>	<u>49,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,577</u>
Fund balances:						
Reserved for:						
Impact fees	-	-	87,124	-	-	87,124
Unreserved, reported in:						
General fund	86,244	-	-	-	-	86,244
Special revenue fund	-	(35,733)	-	-	38,693	2,960
Capital projects funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,417</u>	<u>-</u>	<u>112,417</u>
Total fund balances	<u>86,244</u>	<u>(35,733)</u>	<u>87,124</u>	<u>112,417</u>	<u>38,693</u>	<u>288,745</u>
Total liabilities and fund balances	<u>\$ 114,088</u>	<u>\$ 14,000</u>	<u>\$ 87,124</u>	<u>\$ 112,417</u>	<u>\$ 38,693</u>	<u>\$ 366,322</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Reconciliation of the Balance Sheet of the Governmental
Funds to the Statement of Net Assets
June 30, 2005

Total fund balances - governmental fund types	\$ 288,745
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	273,468
Revenues not considered available are deferred in the funds.	<u>5,617</u>
Net assets of government activities	<u>\$ 567,830</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Redevel. Agency Fund	Impact Fees Fund	Capital Projects Fund	Other Fund	Total Governmental Funds
Revenues:						
Taxes						
Property	\$ 17,695	\$ 13,413	\$ -	\$ -	\$ -	\$ 31,108
Sales and use	55,061	-	-	-	-	55,061
Licenses and permits	27,542	-	-	-	-	27,542
Intergovernmental	56,719	-	-	-	-	56,719
Charges for services	612	-	-	-	-	612
Impact fees	-	-	44,859	-	-	44,859
Miscellaneous revenue	3,075	-	-	-	-	3,075
Interest earnings	<u>1,674</u>	<u>-</u>	<u>1,408</u>	<u>2,417</u>	<u>783</u>	<u>6,282</u>
Total revenues	<u>162,378</u>	<u>13,413</u>	<u>46,267</u>	<u>2,417</u>	<u>783</u>	<u>225,258</u>
Expenditures:						
Current:						
General government	47,672	3,436	-	-	-	51,108
Public safety	3,214	-	-	-	-	3,214
Streets and public works	90,883	-	-	-	-	90,883
Parks and recreation	<u>17,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,330</u>
Total expenditures	<u>159,099</u>	<u>3,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,535</u>
Excess of revenues over expenditures	<u>3,279</u>	<u>9,977</u>	<u>46,267</u>	<u>2,417</u>	<u>783</u>	<u>62,723</u>
Other financing sources (uses):						
Transfers in (out)	<u>(1,500)</u>	<u>-</u>	<u>(13,500)</u>	<u>15,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,500)</u>	<u>-</u>	<u>(13,500)</u>	<u>15,000</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	1,779	9,977	32,767	17,417	783	62,723
Fund balance at beginning of year	<u>84,465</u>	<u>(45,710)</u>	<u>54,357</u>	<u>95,000</u>	<u>37,910</u>	<u>226,022</u>
Fund balance at end of year	<u>\$ 86,244</u>	<u>\$ (35,733)</u>	<u>\$ 87,124</u>	<u>\$ 112,417</u>	<u>\$ 38,693</u>	<u>\$ 288,745</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of the Governmental
Funds to the Statement of Activities
June 30, 2005

Amounts reported for governmental
activities in the statement of
activities are different because:

Net changes in fund balances - total governmental funds	\$ 62,723
Governmental funds report capital outlays as expenditures. However, in the statement of activities the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	113,678
Revenues in the statement of activities that do not provide current financial resources are not reported as in the funds.	<u>(1,305)</u>
Change in net assets of govern- mental activities	<u>\$ 175,096</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Net Assets - Proprietary Fund
June 30, 2005

	<u>Enterprise Fund</u> <u>Water Utility</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 114,573
Accounts receivable - net	14,100
Interfund receivable	<u>10,000</u>
Total current assets	138,673
Noncurrent assets:	
Advance to other funds	21,733
Capital assets (net of accumulated depreciation):	
Improvements	608,667
Equipment	<u>86,523</u>
Total noncurrent assets	716,923
Total assets	855,596
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	890
Deferred revenue	<u>11,605</u>
Total current liabilities	12,495
NET ASSETS	
Invested in capital assets, net of related debt	695,190
Restricted - impact fees	22,979
Unrestricted	<u>124,932</u>
Total net assets	<u>\$ 843,101</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Revenues, Expenses and Changes in Fund
Net Assets - Proprietary Fund
For the Year Ended June 30, 2005

	<u>Enterprise Fund</u> <u>Water Utility</u>
Operating revenues:	
Water sales (net of \$2,691 discount)	\$ 78,659
Total operating revenues	78,659
Operating expenses:	
Salaries and wages	3,201
Materials and supplies	8,954
Maintenance and repairs	14,979
Utilities	8,329
Professional services	5,199
Depreciation	33,589
Total operating expenses	74,251
Operating income	<u>4,408</u>
Nonoperating revenues:	
Interest revenue	4,819
Impact fees	64,562
Total nonoperating revenues	<u>69,381</u>
Capital contributions - developers	<u>31,200</u>
Change in net assets	104,989
Total net assets - beginning	<u>738,112</u>
Total net assets - ending	<u>\$ 843,101</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2005

	<u>Enterprise Fund</u> <u>Water Utility</u>
Cash flows from operating activities:	
Receipts from customers	\$ 75,144
Payments to suppliers	(37,955)
Payments to employees	<u>(3,201)</u>
Net cash provided by operating activities	<u>33,988</u>
Cash flows from noncapital financing financing activities:	
Interfund loan repayments received	<u>1,977</u>
Net cash provided by financing activities	<u>1,977</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(26,494)
Impact fees received	<u>64,562</u>
Net cash provided by capital and related financing activities	<u>38,068</u>
Cash flows from investing activities:	
Interest and dividends received	<u>4,819</u>
Net cash provided by investing activities	<u>4,819</u>
Net increase in cash and cash equivalents	78,852
Cash and cash equivalents - beginning	<u>35,721</u>
Cash and cash equivalents - end	<u><u>\$ 114,573</u></u>

The accompanying notes are an integral part of these statements.

Elwood Town
Statement of Cash Flows - Proprietary Funds (Continued)
For the Year Ended June 30, 2005

	<u>Enterprise Fund</u> <u>Water Utility</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,408
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	33,589
Increase in accounts receivable	(6,985)
Decrease in accounts payable	(494)
Increase in deferred revenue	3,470
Total adjustments	<u>29,580</u>
 Net cash provided by operating activities	 \$ <u>33,988</u>
 Noncash investing, capital and financing activities:	
 Capital assets contributed by developers	 \$ <u>31,200</u>

The accompanying notes are an integral part of these statements.

Elwood Town
Notes to Financial Statements
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The government of Elwood Town is governed by an elected mayor and four-member council. As required by generally accepted accounting principles, these financial statements present the government and its component unit, the Elwood Town Redevelopment Agency (Agency), an entity for which the government is considered to be financially accountable. It is considered a blended component unit since its chairman is the Town's mayor and it is financially dependent on the Town; therefore, its data is combined with data of the primary government. The Agency has a June 30 year end.

B. Government-Wide and Fund Financial Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

See Independent Auditors' Report.

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental and proprietary funds. All individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The government has the following fund types:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available").

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers all revenues available if they are collected within 30 days after year end. The Town considers Class C road money to be available if collected within 60 days. Expenditures are recorded when the related fund liability is incurred.

Governmental funds include the following fund types:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **special revenue funds** account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The **capital projects funds** account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Town applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

See Independent Auditors' Report.

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal operating revenues of the enterprise fund are charges to customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Town has decided the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Town has only one proprietary fund, the water utility fund, which delivers culinary water to Town citizens.

D. Assets, Liabilities and Equity

i. *Cash and Investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with the original maturities of three months or less from the date of acquisition. Currently, the only investing is done with the State Treasurer's Investment Pool.

ii. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds," if they are not projected to be repaid within one year, and as "interfund receivable/payable" for amounts projected to be repaid within one year. The interfund loans were to help start the Redevelopment Agency fund.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii. Capital Assets

Capital assets used in governmental-fund type operations are accounted for in the governmental activities column in the statement of net assets, but not in governmental funds. Governmental capital assets consisting of certain improvements other than buildings, including roads, bridges, streets, drainage systems, and lighting system, placed in service prior to June 30, 2003, have not been capitalized.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible capital assets is charged as an expense against its operations in the government-wide financial statements and the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide and proprietary fund statements of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	40 years
Water system	40 years
Equipment	5-20 years

E. Budget and Budgetary Accounting

The Town follows the budget and budgetary accounting procedures established by Utah law and described in the Uniform Accounting Manual for Utah Cities and Towns. The current year budget was amended according to Utah law.

F. Interfund Transfers

The transfer from the impact fees fund to the general fund was to provide funding for a sewer study. The transfer from the general fund to the capital projects fund was to provide funding for future capital projects.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 2. CASH AND INVESTMENTS

At year end, the government's carrying amount of deposits was \$330,752 and the bank balance was \$331,309. Of the bank balance, \$138,693 was covered by federal depository insurance and \$192,616 was uncollateralized.

Statutes authorize Elwood Town to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Records and the state treasurer's investment pool. Investments in the State Treasurer's Investment Pool are unrated for credit risk. They are also uninsured and unregistered.

Elwood Town's investment policy is to invest in the State Treasurer's Investment Pool. The investments at year end are shown below.

	<u>Carrying Amount</u>	<u>Market Value</u>
State Treasurer's Pool	\$ <u>100,457</u>	\$ <u>100,472</u>
Total investments	\$ <u><u>100,457</u></u>	\$ <u><u>100,472</u></u>

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government assets not being depreciated:				
Land	\$ 5,000	\$ 17,500	\$ -	\$ 22,500
Capital assets being depreciated:				
Buildings	96,740	-	-	96,740
Improvements	80,557	106,983	-	187,540
Machinery and equipment	<u>35,403</u>	<u>-</u>	<u>-</u>	<u>35,403</u>
Total capital assets being depreciated	<u>212,700</u>	<u>106,983</u>	<u>-</u>	<u>319,683</u>
Less accumulated depreciation:				
Buildings	33,677	2,419	-	36,096
Improvements	6,679	5,859	-	12,538
Machinery and equipment	<u>17,555</u>	<u>2,526</u>	<u>-</u>	<u>20,081</u>
Total accumulated depreciation	57,911	10,804	-	68,715
Total capital assets being depreciated - net	<u>154,789</u>	<u>96,179</u>	<u>-</u>	<u>250,968</u>
Governmental activities capital assets - net	<u>\$159,789</u>	<u>\$113,679</u>	<u>\$ -</u>	<u>\$ 273,468</u>

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 3. CAPITAL ASSETS (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Improvements	\$860,631	\$ 57,694	\$ -	\$ 918,325
Machinery and equipment	<u>129,471</u>	<u>-</u>	<u>-</u>	<u>129,471</u>
Total capital assets being depreciated	<u>990,102</u>	<u>57,694</u>	<u>-</u>	<u>1,047,796</u>
Less accumulated depreciation:				
Improvements	287,492	22,166	-	309,658
Machinery and equipment	<u>31,525</u>	<u>11,423</u>	<u>-</u>	<u>42,948</u>
Total accumulated depreciation	<u>319,017</u>	<u>33,589</u>	<u>-</u>	<u>352,606</u>
Business type activities capital assets - net	<u>\$671,085</u>	<u>\$ 24,105</u>	<u>\$ -</u>	<u>\$ 695,190</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General governmental	\$ 2,823
Streets and public improvements	5,305
Parks and recreation	<u>2,677</u>
 Total depreciation expense governmental activities	 <u>\$ 10,805</u>

NOTE 4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Funding of Deficit Fund Balance

The deficit fund balance in the redevelopment agency fund has been funded by loans from the water utility fund. These loans will be paid back with future property tax receipts.

See Independent Auditors' Report

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 5. PROPERTY TAX

Property taxes attached as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30. Property tax revenues are not recognized when levied because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB. Property taxes received within thirty (30) days of year end are recognized as revenue at year end.

NOTE 6. NET ASSET FUND BALANCE RESERVATION

The Town has enacted impact fees for water, sewer, parks, streets and storm sewer. Amounts collected but not spent by year end, plus accrued interest, are reserved or restricted until spent or returned to the payor.

NOTE 7. RISK MANAGEMENT

Elwood Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. All general liability, real property and all vehicles, including heavy equipment, are insured through a commercial policy (errors and omissions), and injuries to employees are self insured. Settled claims have not exceeded the Town's insurance coverage for any of the past three years. For insured programs, there have been no significant reductions in insurance coverage.

NOTE 8. REDEVELOPMENT AGENCY FUND

Tax increment monies in the amount of \$13,413 were generated from the RDA #1 project area within the Redevelopment Agency. No tax increment was paid to other taxing agencies. There were no bonds issued or other loans incurred to finance the costs associated with the project area.

Elwood Town
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 8. REDEVELOPMENT AGENCY FUND (Continued)

During the year, the RDA expended monies as follows:

Acquisition of property	\$ -
Site improvements/preparation costs	-
Installation of public improvements	-
Administration costs	512
Debt repayment and bond issuance costs	<u>4,901</u>
	<u>\$ 5,413</u>

NOTE 9. PRIOR PERIOD ADJUSTMENTS

In the year ended June 30, 2004, the government-wide statement included in revenue \$19,934 in property taxes that were not received within 60 days of the year end. This adjustment properly restates the governmental net assets as of the beginning of the year. This item caused no changes in the governmental funds financial statements.

NOTE 10. SUBSEQUENT EVENT

On July 1, 2005, Elwood Town entered into a contract with Hansen & Associates, Inc. to provide engineering services needed for the construction of a new water storage tank and lines. The construction total was \$139,500; \$209,485 of this amount had been earned and paid by June 30, 2005.

The Town is in the process of acquiring long-term debt in the amount of \$1,700,000 to complete the construction.

See Independent Auditors' Report

Elwood Town
Budget Comparison Schedule - General Fund (Unaudited)
For the Year Ended June 30, 2005

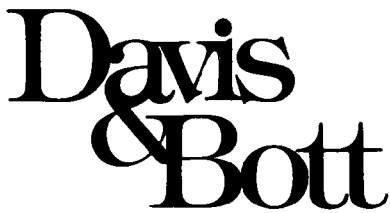
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes				
Property	\$ 14,000	\$ 18,500	\$ 17,695	\$ (805)
Sales & Use	50,000	51,013	55,061	4,048
Licenses and permits	25,000	27,550	27,542	(8)
Intergovernmental	55,000	63,537	56,719	(6,818)
Charges for services	1,000	660	612	(48)
Miscellaneous revenue	4,000	3,030	3,075	45
Interest earnings	<u>1,000</u>	<u>5,210</u>	<u>1,674</u>	<u>(3,536)</u>
Total revenues	<u>150,000</u>	<u>169,500</u>	<u>162,378</u>	<u>(7,122)</u>
Expenditures:				
General government	50,000	53,300	47,672	5,628
Public safety	16,000	3,500	3,214	286
Streets and public works	85,000	93,500	90,883	2,617
Parks and recreation	<u>29,000</u>	<u>17,700</u>	<u>17,330</u>	<u>370</u>
Total expenditures	<u>180,000</u>	<u>168,000</u>	<u>159,099</u>	<u>8,901</u>
Excess of revenues over (under) expenditures	(30,000)	1,500	3,279	1,779
Other financing sources (uses):				
Transfers in (out)	<u>30,000</u>	<u>(1,500)</u>	<u>(1,500)</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	-	-	1,779	1,779
Fund balance at beginning of year	<u>53,717</u>	<u>53,717</u>	<u>84,465</u>	<u>30,748</u>
Fund balance at end of year	<u>\$ 53,717</u>	<u>\$ 53,717</u>	<u>\$ 86,244</u>	<u>\$32,527</u>

Elwood Town
Budget Comparison Schedule - Redevelopment Agency Fund
(Unaudited)
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$ 8,500	\$ 13,413	\$ 13,413	\$ -
Total revenues	<u>8,500</u>	<u>13,413</u>	<u>13,413</u>	<u>-</u>
Expenditures:				
Current:				
General government	<u>8,500</u>	<u>5,413</u>	<u>3,436</u>	<u>1,977</u>
Total expenditures	<u>8,500</u>	<u>5,413</u>	<u>3,436</u>	<u>1,977</u>
Excess of revenues over expenditures	<u>-</u>	<u>8,000</u>	<u>9,977</u>	<u>1,977</u>
Other financing sources (uses)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	<u>-</u>	<u>8,000</u>	<u>9,977</u>	<u>1,977</u>
Fund balance at beginning of year	<u>(45,710)</u>	<u>(45,710)</u>	<u>(45,710)</u>	<u>-</u>
Fund balance at end of year	<u>\$ (45,710)</u>	<u>\$ (37,710)</u>	<u>\$ (35,733)</u>	<u>\$1,977</u>

Elwood Town
Budget Comparison Schedule - Impact Fees Fund (Unaudited)
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Impact fees	\$30,693	\$ 44,859	\$ 44,859	\$ -
Interest earnings	<u>-</u>	<u>-</u>	<u>1,408</u>	<u>1,408</u>
Total revenues	<u>30,693</u>	<u>44,859</u>	<u>46,267</u>	<u>1,408</u>
Expenditures:				
Current:				
General government	<u>5,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	5,500	-	-	-
Excess of revenues over expenditures	<u>25,193</u>	<u>44,859</u>	<u>46,267</u>	<u>1,408</u>
Other financing sources (uses)				
Transfers in (out)	<u>-</u>	<u>(13,500)</u>	<u>(13,500)</u>	<u>-</u>
Total other financing uses	<u>-</u>	<u>(13,500)</u>	<u>(13,500)</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	25,193	31,359	32,767	1,408
Fund balance at beginning of year	<u>54,357</u>	<u>54,357</u>	<u>54,357</u>	<u>-</u>
Fund balance at end of year	<u>\$79,550</u>	<u>\$ 85,716</u>	<u>\$ 87,124</u>	<u>\$1,408</u>



Certified Public Accountants, L.C.

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Tremonton, Utah 84337
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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the Elwood Town Council
Elwood, Utah 84337

We have audited the financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of Elwood, Utah, as of and for the year ended June 30, 2005, which collectively comprise the Town of Elwood's basic financial statements and have issued our report thereon dated November 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elwood, Utah's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (Continued)**

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Elwood, Utah, in a separate letter dated November 7, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elwood, Utah's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*. However, we noted an immaterial instance of noncompliance we have reported to the management of Elwood, Utah, in a separate letter dated November 7, 2005.

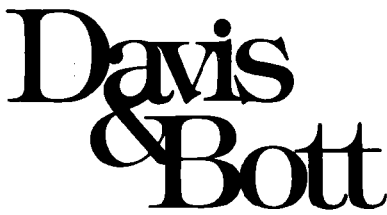
This report is intended solely for the information and use of management, the Town Council, and the various state funding and auditing agencies and is not intended to be, and should not be used by, anyone other than these specified parties.



DAVIS & BOTT

Certified Public Accountants, L.C.

November 7, 2005



Certified Public Accountants, L.C.

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**AUDITORS' REPORT ON
STATE OF UTAH LEGAL COMPLIANCE**

The Honorable Mayor and Members of the
Elwood Town Council
Elwood, Utah 84337

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of Elwood, Utah, for the year ended June 30, 2005, and have issued our report thereon dated November 7, 2005. As part of our audit, we have audited the Town of Elwood's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The Town received the following major assistance programs from the State of Utah:

- * B & C Road Funds (Department of Transportation)
- * Liquor Law Enforcement (State Tax Commission)

The Town received no nonmajor grants during the current audit period.

Our audit also included test work on the Town's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- * Public Debt
- * Cash Management
- * Purchasing Requirements
- * Budgetary Compliance
- * Truth in Taxation & Property Tax Limitations
- * Liquor Law Enforcement
- * B & C Road Funds
- * Other General Compliance Issues
- * Uniform Building Code Standards
- * Impact Fees and Other Development Fees

AUDITORS' REPORT ON STATE OF UTAH
LEGAL COMPLIANCE
(Continued)

The management of Elwood is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying letter of recommendations. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Elwood, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.



DAVIS & BOTT

Certified Public Accountants, L.C.

November 7, 2005

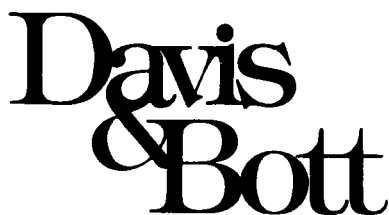
ELWOOD TOWN

Letter of Recommendations

June 30, 2005

**Davis
& Bott**

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The Mayor and Town Council
Elwood Town
Elwood, UT 84337

We have audited the financial statements of Elwood Town for the year ended June 30, 2005, and have issued our report thereon dated November 7, 2005. As part of our examination, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Town's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Elwood Town is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Elwood Town taken as a whole.

However, our study and evaluation disclosed the following reportable or agreed-upon conditions that we believe result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Elwood Town may occur and not be detected within a timely period.

CURRENT YEAR RECOMMENDATIONS:

1. TOWN POLICIES

Issue - State law requires each town to have a written and approved purchasing policy.

Recommendation - We recommend the Town prepare and approve a formal purchasing policy.

Response - We will adopt a purchasing policy.

2. SEGREGATION OF DUTIES

Issue - Elwood Town has insufficient segregation of duties due to the small size of the entity.

Recommendation - We recommend the Town look at the cost versus the benefit of improving the segregation of duties. Having the treasurer reconcile the bank statements and trace cash receipts to deposits should help controls.

Response - The Town will implement this recommendation.

3. FIXED ASSETS

Issue - The Town often receives fixed assets such as land, water lines and roads when there is development. It is important to include these assets in the Town's financial records when they are received. A method needs to be adopted to determine the value of the assets received.

Recommendation - We recommend development be monitored closely to properly account for fixed assets received and that a method be adopted for valuing these assets.

Response - We will more closely monitor development and will adopt a valuation policy for those assets.

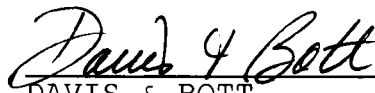
Elwood Town
November 7, 2005
Page Three

CONCLUSION

The matters discussed herein have been brought to the attention of responsible Town personnel during the course of our examination. As a result, many of these recommendations are either being implemented or are under consideration at the time of issuance of this letter.

We wish to take this opportunity to express our thanks and appreciation for the courtesy and assistance extended to us by your personnel during our audit work.

We welcome the opportunity to discuss further any points mentioned herein. We feel that proper implementation of these suggestions will improve internal controls and protect the Town's assets.



DAVIS & BOTT

Certified Public Accountants, L.C.

November 7, 2005
Brigham City, Utah